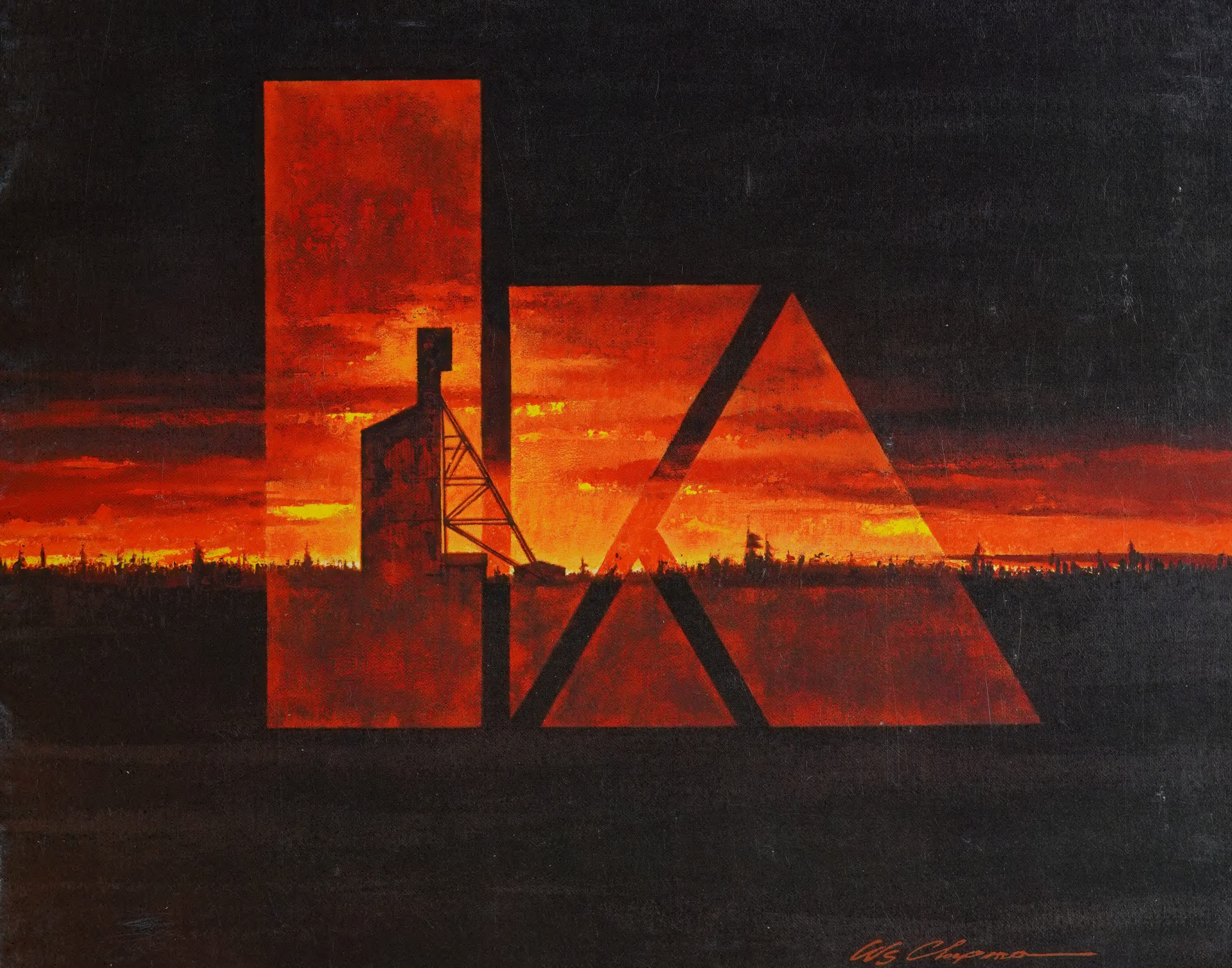
Kerr Addison Mines Limited
Annual Report 1975



Kerr Addison Mines Limited

DIRECTORS:

Allan Findlay, Q.C.
Partner
Tilley, Carson & Findlay

J. O. HInds
Executive Assistant to the President
Noranda Mines Limited

William James
President
Kerr Addison Mines Limited

James W. McCutcheon, Q.C.
Partner
Shibley, Righton & McCutcheon

D. G. Neelands
Chairman & Chief Executive Officer
Canada Permanent Mortgage Corporation

J. P. W. Ostiguy
President & Chief Executive Officer
Crang & Ostiguy, Inc.

Alfred Powis
President & Chief Executive Officer
Noranda Mines Limited

W. H. Rea
Chairman of the Board
Great Canadian Oil Sands Limited

W. S. Row
Chairman of the Board
Noranda Mines Limited

M. D. Rowswell
Executive Vice-President
Kerr Addison Mines Limited

D. E. G. Schmitt
Vice-President — Mines
Noranda Mines Limited

OFFICERS:

W. S. Row, Chairman of the Board

William James, President

M. D. Rowswell, Executive Vice-President

I. D. Bayer, Treasurer

J. B. Sage, Secretary

S. Pataran, Manager of Operations

A. H. Cross, Comptroller

OPERATIONS:

The Kerr Addison Mine
W. G. Hargrave, Manager

Blue Hill Joint Venture
G. M. Deutman, Manager

HEAD OFFICE AND EXPLORATION OFFICE:

P.O. Box 91, Commerce Court West
Toronto, Ontario. M5L 1C7

TRANSFER AGENTS AND REGISTRARS:

Canada Permanent Trust Company
20 Eglinton Avenue West
Toronto, Ontario

Registrar & Transfer Company
140 Cedar Street
New York, New York

Registrar & Transfer Company
34 Exchange Place
Jersey City 2, N.J.

AUDITORS:

Clarkson, Gordon & Co., P.O. Box 251
Toronto-Dominion Centre, Toronto, Ontario

ANNUAL MEETING OF SHAREHOLDERS:

Monday, April 19, 1976, 12:00 noon
at the Hampton Court
King Edward Sheraton Hotel
Toronto, Ontario

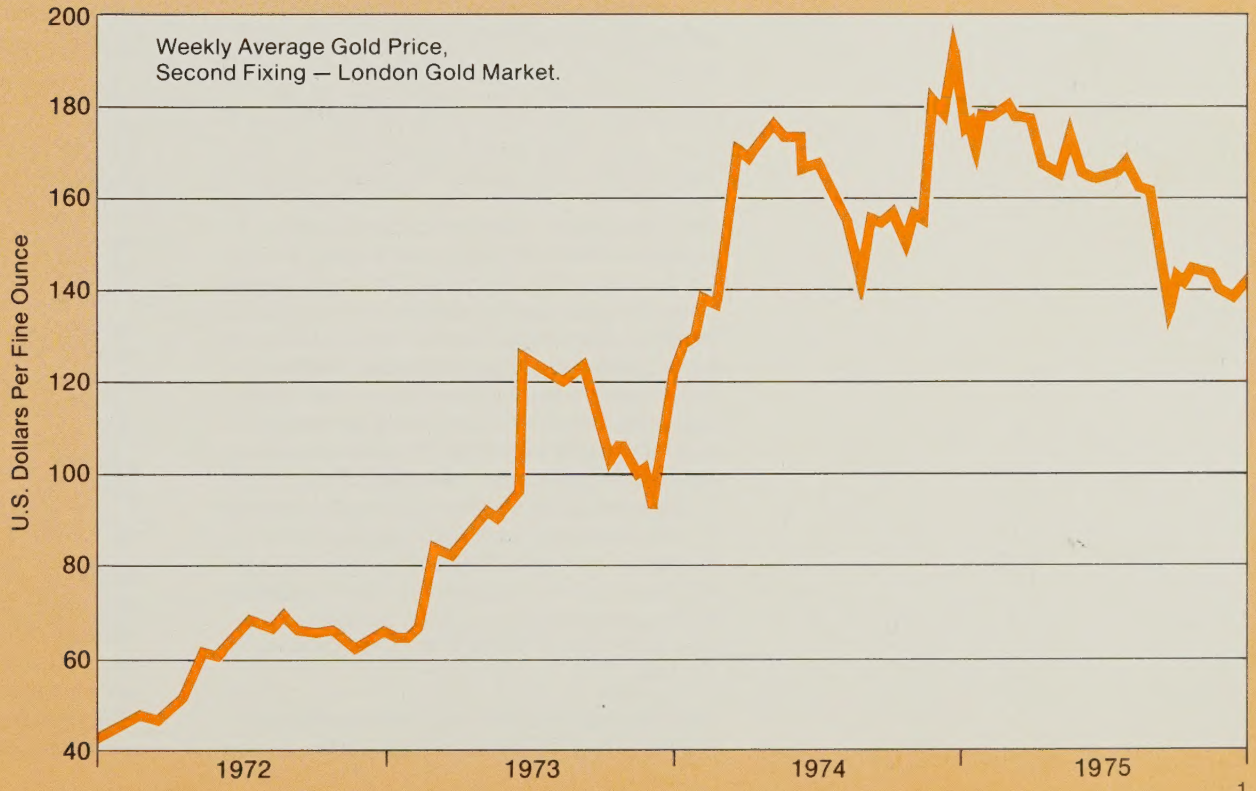
"The Buck Starts Here"

The cover for the 1975 Annual Report was produced from a painting by Wes Chapman which hangs in the Company's reception area at its Head Office in Toronto. The Kerr Addison logo depicts a mine headframe, from which the wealth of this Company and, to a significant extent, the wealth of this Country, is derived. - "The Buck Starts Here".

Financial Summary:

	1975	1974	1973	1972	1971
Millions of Dollars					
Production revenue	$25.7	$37.0	$32.7	$21.7	$22.4
Investment income	5.3	5.7	3.9	3.0	3.0
Income and mining taxes	1.6	7.9	4.5	1.9	1.8
Net income	9.0	15.3	9.9	5.9	6.1
Dollars Per Share					
Net income	$ .94	$ 1.61	$ 1.04	$ .62	$ .64
Income and mining taxes	.17	.83	.47	.20	.19
Dividends declared	.50	.70	.60	.50	.45
Net value of current assets and investments at market	9.83	9.06	12.74	10.38	8.70

The Gold Picture:



Directors' Report to the Shareholders

The year 1975 has been an extremely difficult one for non-energy sections of the Canadian mining industry. The western world went through one of its worst recessions in several decades, resulting in a substantial reduction in consumption, sales volume and the price of consumer metals. In Canada, the conflict between the federal and provincial governments over the sharing and levels of resource taxes continued and took an even more ominous dimension when the Saskatchewan government threatened to nationalize the potash industry in that province. Although Canada did not experience as severe a recession as most countries in 1975, inflation here continued at high levels due to excessive demands by all sectors of the economy. For the mining industry, this was reflected in escalating operating costs and soaring capital costs for developing and expanding mining facilities. By year-end, there were signs that economic recovery was taking place, particularly in the United States, and there are indications that a more realistic view is being taken in Canada by some governments towards resource industries.

The public sector, through uncontrolled expenditure levels and excessive increases in money supply, has been the single most important cause of inflation in Canada. The New York City financial crisis during the fall of 1975, however, has led a number of provincial and municipal governments in this country to reconsider their borrowing limits and to reduce the growth of expenditures. In October of 1975, the Federal Government announced an Anti-Inflation Programme for the restraint of prices and incomes for all Canadians. Kerr Addison has been operating within its understanding of the philosophy of this programme and will keep its shareholders informed as to any adverse effects on the Company's business as the regulations are clarified.

The year 1975 has been one of change for Kerr Addison. The three base metal operations in Quebec, which together contributed significantly to the Company's earnings during the past number of years, terminated operations due to the exhaustion of ore reserves. The Normetal mine (100% owned), which was acquired by Kerr Addison in 1968, and the Joutel mine (63% owned) and the Icon Sullivan Joint Venture mine (21% owned), both of which commenced production in 1967, all discontinued operations during the second quarter of 1975. On the positive side, the Company carried out exploration programmes and extensive research during the year on the 60%-owned Grum Joint Venture, which is a zinc-lead-silver property located near Faro, Yukon Territory, as well as on the 82.5%-owned Agnew Lake uranium property located west of Sudbury in northern Ontario. Agnew Lake could provide a solid earnings base for the Company within three years.

Earnings for 1975 were $9.0 million, or $0.94 per share, compared to $15.3 million, or $1.61 per share in 1974. Earnings for the current year included a profit of $2.4 million, or 25¢ per share, on the sale of a 10% undivided interest in the Agnew Lake uranium property and plant and a loss of $0.9 million due to a reduction in the carrying value of our share of the mining plant at the Blue Hill Joint Venture. In 1974, earnings included $3.5 million in gains from the assignment of the Fernandez Joint Venture uranium reserves and the sale of the 22% interest in the National Zinc Company. Earnings during 1975 were also adversely affected by escalating operating costs and by lower production levels caused by the mine closures and reduced metal demand.

Dividends declared during the year amounted to $4.8 million or 50¢ per share. The Company's financial structure remained strong as the net value of current assets and investments at market value increased to $94 million, or $9.83 per share, at December 31, 1975, from $86 million, or $9.06 per share, a year earlier. Investment income

amounted to $5.3 million, a slight reduction from the $5.7 million earned the previous year.

The principal source of mining income was from the Kerr Addison gold mine at Virginiatown, Ontario, where production amounted to 103,000 ounces during 1975, a reduction from the 109,000 ounces produced in 1974. The free-market price of gold varied between a high of $185.25 and a low of $128.75, to average $161 (U.S.) during 1975, which was similar to the 1974 average price. However, the continued campaign by the U.S. Government to remove gold from the world's monetary system, and the tentative agreement by the IMF member countries in August, 1975 to sell 25 million ounces on the free-market had, by late 1975, driven the price of gold to its lowest level in two years.

At Agnew Lake, the $3 million test programme for the extraction of uranium by solutions continued during the year. Leaching commenced in July on the surface stockpile and in September in the underground stope. Initial calculated recoveries of uranium in solutions from both locations are comparable to the research results achieved in previous years. This programme, together with a feasibility study on further development of the property, was in progress at year-end. The preliminary capital cost estimate indicates that approximately $35 million will be required to develop a production unit with capacity for an annual output of one million pounds of U_3O_8. With the current strength in world uranium markets, a production decision is expected in the near future. As the Canadian Anti-Inflation Regulations on exports have not yet been presented to Parliament for first reading, no production decision can be made concerning the Agnew Lake operation until the ramifications of the proposed export levy have been clarified.

The agreement, dated December 31, 1974 between Agnew Lake Mines Limited and Uranerz Exploration and Mining Limited, a Canadian subsidiary of Uranerzbergbau-GMBH & Co. KG. of Bonn, Germany, for the sale of a 10% undivided interest in the Agnew Lake uranium property and plant at a price of $4.8 million had received all necessary government approvals by year-end. This agreement also provides for the formation of a joint venture, whereby each of the parties contributes its share of all expenditures since January 1, 1975, and, if a mine were brought into production on the property, each party is entitled to its share of production in kind.

The 1975 exploration programme on the Grum Joint Venture consisted of 68,000 feet of surface and underground diamond drilling, the driving of 5,300 feet of underground headings, as well as metallurgical testing and environmental studies. Expenditures during 1975 amounted to $5.2 million, with Kerr Addison's 60% share being $3.1 million. The 1975 surface drilling programme included fill-in drilling from the previous programme as well as extending the area of known mineralization to the north and west. Underground diamond drilling, which has been completed on one section only, has indicated the mineralization to be structurally complex as a result of folding and faulting. Management has learned to cope with the difficult ground conditions encountered in the development to date and, recently, has been encouraged by the grade of mineralization indicated by underground development and diamond drilling. Although reasonable recoveries in concentrate grades were achieved in laboratory tests, pilot plant runs have not yet been successful in duplicating these results. During 1976, there will be a continuation of the underground evaluation programme, the metallurgical test-work and the environmental studies.

The expansion of the 9.8% owned Canadian Electrolytic Zinc reduction plant in Valleyfield, Quebec from 400 to 620 tons of zinc metal per day, was essentially completed by year-end at a total estimated capital expenditure cost of $61

Directors' Report to the Shareholders (continued)

million. Western world consumption of zinc plummeted 23% during 1975, due to the depressed levels of residential construction and automobile production. As a result of the reduced metal demand, C.E.Z. operated at an average of 320 tons per day.

The Blue Hill Joint Venture zinc-copper mine near Blue Hill, Maine, in which Kerr Addison holds a 60% interest, made a small operating profit, but a net loss after depreciation and depletion, during 1975 from the production of 211,000 tons of ore grading 4.9% zinc and 1.1% copper.

In February, 1976, the Company entered into an agreement under which International Mogul Mines Limited will sell to Kerr Addison its 75% interest in Mogul of Ireland Limited at a price of approximately $9 million. Mogul of Ireland Limited owns and operates a 3,000 ton per day zinc-lead mine at Silvermines, County Tipperary, Republic of Ireland. At year-end, ore reserves were estimated to be 5.5 million tons with a grade of 6.2% zinc and 2.6% lead.

This Company operates under the philosophy that mineral resources are renewable when profits generated from their depletion are reinvested through exploration and development of new reserves. To this end, the Company expended $7.5 million during 1975 in an attempt to renew its reserve position. This is substantially more than the $4.8 million returned to shareholders in the form of dividends. Management understands that this is an onerous burden on the Kerr Addison shareholders, but is one they have borne in the past and must continue to carry if the depleted reserves of exhausted mines in Canada are to be replaced. This is a point that is often overlooked or misunderstood by some provinces which tax mining operations to the extent that there are insufficient profits remaining to replace exhausted reserves, and leave an incentive for the investor.

Approximately 95% of the Company's 1975 exploration activities were carried out in this country, which is tangible proof that Kerr Addison believes in the future of mining in Canada and the development of a sound resource policy.

On behalf of the Board,

W. S. Row Chairman	William James President
Toronto, Canada	February 12, 1976

Pouring gold bricks at the Kerr Addison smelter, Virginiatown, Ontario.

Report on Operations

TO THE PRESIDENT AND DIRECTORS:

The following report reviews the operations of the producing mines, the termination of operations at the Normetal, Joutel and Icon Sullivan Joint Venture properties, as well as the continuing exploration efforts of the Company.

KERR ADDISON MINE

Production:
The Kerr Addison gold mine located at Virginiatown, Ontario produced 270,000 tons of ore which was milled at an average daily rate of 741 tons. At an average grade of 0.39 ounces gold per ton, 102,770 ounces of gold were produced for a production value of $16.2 million.

Daily mill throughput increased during the year from an average in January of 648 tons to an average in December of 935 tons. This resulted largely from an increase in tonnage of lower grade ore produced by shrinkage mining methods and from a small improvement in manpower availability. Labour costs during the year increased by 32%, following the ratification of a new three-year labour contract effective April 1, 1975.

Ore Reserves:
Mineable ore reserves, including an allowance for dilution, are estimated as follows:

	Tons	Ounces of Gold Per Ton
Total reserves at December 31, 1974	1,559,000	0.47
Total reserves at December 31, 1975	1,263,000	0.44

The small reduction in ore reserve tonnage in excess of tons milled during 1975, was due to the minor shift of an ore boundary. The grade reduction reflected is based on the 1975 experience of mining in areas which did not stand up to estimated block grades.

BLUE HILL JOINT VENTURE

Production:
This property located near Blue Hill, Maine, in which Kerr Addison holds a 60% interest, produced 211,210 tons of ore at an average grade of 1.1% copper and 4.9% zinc from which 1,960 tons of copper and 9,490 tons of zinc were recovered.

Due to production cut backs by zinc converters, it has been necessary to stockpile 7,150 tons of concentrate at the property.

Ore Reserves:
Mineable reserves, including an allowance for dilution, are estimated as follows:

		Grade %	
	Tons	Copper	Zinc
Estimated at December 31, 1974	701,000	1.59	5.31
Estimated at December 31, 1975	522,000	1.46	3.40

At current metal prices some of the above reserves may not be economic.

Report on Operations (continued)

In addition to the above, The Carlton area, south of the current workings and 700 to 1,200 feet deeper, contains a drill-indicated reserve of 1,400,000 tons at an average grade of 8.1% zinc, including an allowance for mining dilution. Development of this reserve would require a substantial capital programme which, at present, is not contemplated.

NORMETAL MINE

Mining operations located at Normetal, Quebec, were terminated April 29, 1975, as economic ore reserves were exhausted. During the four months, 82,150 tons of ore at an average grade of 0.58% copper, 5.86% zinc, 0.015 ounces of gold and 1.28 ounces of silver were treated. The mining plant and equipment was subsequently sold and is being removed.

Since the commencement of production at Normetal in September, 1937 a total of 11,143,800 tons of ore were mined to yield 240,140 tons of copper, 570,490 tons of zinc, 174,350 ounces of gold and 14,690,000 ounces of silver.

JOUTEL COPPER MINES LIMITED

Operations at this property, located at Joutel, Quebec, terminated June 30, 1975 and all of the plant and equipment have also been sold. During the six months, 87,500 tons of zinc ore averaging 6.13% zinc and 3,700 tons of copper ore averaging 1.8% copper were milled. This mine, which commenced production in February, 1967, produced and milled 1,418,200 tons of copper ore with a grade of 2.16% copper and 410,600 tons of zinc ore with a grade of 8.9% zinc.

Kerr Addison holds a 63% interest in Joutel, and during 1975 received $619,400 as its portion of an initial cash distribution by Joutel to its shareholders. Between December, 1969 and June, 1972 Kerr received $3,871,400 as its portion of Joutel dividends paid.

BOUZAN JOINT VENTURE

This property, which is located at Chibougamau, Quebec, is mined from the underground workings of the Copper Rand mine operated by Patino, N.V. There was no production during the year, due to low metal prices. With increased copper prices, there is a reserve estimated at 222,000 tons at an average grade of 1.8% copper and 0.02 ounces of gold per ton which could be mined. Kerr Addison has a 50% interest in this Joint Venture.

ICON SULLIVAN JOINT VENTURE

Operations at this property, located approximately 45 miles from Chibougamau, Quebec, also terminated in June, 1975 as ore reserves had been exhausted.

This mine, in which Kerr Addison holds a 21.4% interest, commenced operations in May, 1967 and produced 2,346,000 tons of ore which yielded 46,300 tons of copper in concentrate.

AGNEW LAKE MINES LIMITED

During 1975, the development of the experimental stope at the 900 level, was completed, and surface and underground leaching of uranium from broken rock commenced.

The stope is approximately 600 feet long by 100 feet in depth and averages 20 feet in width. It was developed by driving an undercut on the 900 level, and sub-levels at the 850 and 800 level elevations, to full ore width. The development rock, totalling 32,000 tons, was hoisted to surface and placed in stockpile.

To maximize fragmentation, 3-inch diameter blastholes were drilled parallel to the dip of the ore (approximately 70°) on a pattern of 4 feet by 4 feet. Fragmentation achieved was better than anticipated.

Once the rock has been broken, acid-bacterial solution is sprayed on the surface of the broken muck and percolates through to the bottom where it is accumulated and recirculated by pumping to the sprays. The solution, as it travels over the rock, enters hairline-type fractures in and through the rock and dissolves the uranium which it contacts. The efficiency of recovery is due to the fact that during deposition the uranium was trapped in a fracture matrix.

To year-end, one surface stockpile containing 13,000 tons, and approximately 7,000 tons in the underground stope, had been subjected to leach solutions.

The data accumulating on the recovery of uranium from broken ore stockpiled on surface and in the underground stope is similar to that which was gained from the research programmes carried out from 1969 to 1971.

Engineering studies of capital requirements to bring the mine into production and estimates of operating costs have been updated. Particular emphasis has been placed on the environmental issues, both on surface and underground. The proposed underground mining methods will allow the use of highly efficient mobile mining equipment.

GRUM DEPOSIT

During April, 1975, a programme with an initial budget of $6.25 million was initiated to provide the data for a production feasibility study. Included in the programme was; (i) additional surface diamond drilling to extend and detail at closer drill hole spacing the mineralization found during 1974 and, (ii) an underground investigation to determine potential mining conditions and to confirm geological interpretation, as well as grade continuity, between drill hole intersections. An investigation into the metallurgical characteristics of the mineralization was also commenced together with studies of the various aspects of the region's ecology.

To year-end, surface diamond drilling amounted to 20,214 meters (66,321 feet) in 64 new holes, as well as the deepening of four previous holes. Underground development, including the decline

from surface amounted to 1,470 meters (4,822 feet) plus 130 meters (426 feet) of ventilation raising. Underground diamond drilling commenced in December and amounted to 580 meters (1,902 feet). All aspects of the programme will be continued in 1976.

EXPLORATION

Kerr Addison expended approximately $2.5 million on exploration projects, excluding the Grum Joint Venture and Agnew Lake project, during the year. Of this, 88% was expended in areas of Canada where the mining industry is deemed still to be welcome. The 12% balance was expended primarily on projects in the U.S.A.

Particular emphasis was placed on areas of uranium discovery potential. In addition to the potential held in the Agnew Lake Joint Venture, the Cam uranium project, near Bancroft, Ontario, and the Fernandez Joint Venture in the U.S.A., Kerr Addison staked some 732 claims on 30,000 acres in six different locations.

During the year, it was decided that the most economic method of assessing the gold reserve potential of the Sheldon-Larder ground, adjoining the Kerr Addison ground at Virginiatown, Ontario, would be to drift from the Kerr mine at the 3850 level towards the area of interest. A total of 2,210 feet of old drift rehabilitation and 1,137 feet of new development advance was completed at year-end. It is anticipated that a further six months will be required to complete the programme.

Respectfully submitted,

M. D. Rowswell
Executive Vice-President

Toronto, Canada
January 29, 1976

View of the decline entry to the mineralized zone in foreground, and the present equipment maintenance building in background, at the Grum Joint Venture project, located near Faro, Yukon Territory.

A surface diamond drill site at the Grum project.

Panorama view, looking southward, of the Agnew Lake minesite, located near Espanola, Ontario, showing headframe and service buildings in foreground, and surface stockpiles of ore for test leaching process at top right of photograph.

View of one surface stockpile of ore showing piping grid used for spraying acid solution over mineralized rock in test leaching process.

View of specially-contoured base prepared for laying of PVC (vinyl) membrane for the containment of the resultant leach solutions used in the surface process of leaching the stockpiled ore.

View of workmen securing the PVC membrane over the specially-contoured base. The edges of this strong, 20 mil membrane are overlapped and sealed with an acetate compound. An 18-inch layer of sand and gravel is then spread over the whole surface to protect the membrane from puncture during the stockpiling of the ore.

Kerr Addison Mines Limited

(Incorporated under the laws of Ontario)
and its subsidiaries

Consolidated Balance Sheet

December 31, 1975
(with comparative figures at December 31, 1974)

ASSETS	1975	1974
Current:		
Cash and short-term commercial notes	$ 7,824,000	$10,203,000
Marketable securities and short-term investments, at cost (quoted market value 1975 — $17,346,000; 1974 — $13,334,000)	15,073,000	13,302,000
Concentrates, bullion and metals awaiting settlement, in transit and on hand (note 1(c))	10,469,000	9,381,000
Accounts and interest receivable	2,051,000	1,399,000
Supplies and materials, at cost	1,543,000	1,435,000
Prepaid expenses	109,000	146,000
Total current assets	37,069,000	35,866,000
Investments:		
Other mining companies (note 2)	30,869,000	30,723,000
Sundry, at cost	998,000	1,001,000
	31,867,000	31,724,000
Fixed (note 1(d) and note 3):		
Property, plant and equipment, at cost	30,656,000	38,594,000
Less accumulated depreciation and depletion	22,225,000	29,980,000
	8,431,000	8,614,000
Deferred exploration expenditures (note 1(e)):		
Agnew Lake property (note 4)	17,403,000	16,710,000
Grum project	3,585,000	442,000
Other	511,000	1,102,000
	21,499,000	18,254,000
	$98,866,000	$94,458,000

(See accompanying notes to consolidated financial statements)

LIABILITIES	1975	1974
Current:		
Accounts payable and accrued charges	$ 2,428,000	$ 2,977,000
Income and mining taxes payable	648,000	826,000
Total current liabilities	3,076,000	3,803,000
Long-term debt (note 5)	4,264,000	3,840,000
Deferred income taxes (note 1(f))	4,247,000	3,653,000
Minority interest in subsidiaries	1,067,000	1,142,000
Shareholders' equity:		
Share capital (note 6)	41,476,000	41,468,000
Earned surplus	44,736,000	40,552,000
	86,212,000	82,020,000
	$98,866,000	$94,458,000

On behalf of the Board:
W. S. ROW, Director
WILLIAM JAMES, Director

Auditors' Report

To the Shareholders of Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of operations, earned surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Kerr Addison Mines Limited and its subsidiaries as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co., Chartered Accountants
Toronto, Canada, February 5, 1976.

Consolidated Statement of Operations

For the year ended December 31, 1975

(with comparative figures for 1974)

	1975	1974
Mine operations: Value of production (note 1(c))	$25,726,000	$36,994,000
Cost of metal production	17,365,000	20,686,000
	8,361,000	16,308,000
Dividends and interest income on marketable securities, investments in other mining companies and short-term commercial notes	5,316,000	5,651,000
	13,677.000	21,959,000
Deduct: Administrative and general expenses	659,000	595,000
Outside exploration expenses (note 1(e))	2,612,000	1,776,000
Depreciation and depletion (note 1(d))	1,680,000	1,841,000
Income and mining taxes (note 1(f))	1,504,000	5,826,000
Minority interest in profit of subsidiary company	76,000	142,000
	6,531,000	10,180,000
Profit before the following	7,146,000	11,779,000
Add (deduct): Gain on sale of investments and fixed assets (net of income taxes 1975 — $242,000; 1974 — $230,000)	286,000	529,000
Gain on sale of undivided 10% interest in assets of Agnew Lake Mines Limited (net of income taxes of $451,000 and minority interest of $169,000) (note 4)	2,420,000	
Gain on transfer of interest in the Fernandez Joint Venture uranium reserves (net of income taxes of $1,873,000)		3,025,000
Write-down in carrying value of property, plant and equipment (net of income taxes of $600,000) (note 3)	(900,000)	
Net income for the year	$ 8,952,000	$15,333,000
Net income per share	$.94	$1.61

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Earned Surplus

For the year ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
Balance, beginning of year	$40,552,000	$31,894,000
Add net income for the year	8,952,000	15,333,000
	49,504,000	47,227,000
Deduct dividends (1975 — 50¢ per share; 1974 — 70¢ per share)	4,768,000	6,675,000
Balance, end of year	$44,736,000	$40,552,000

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
Source of funds:		(note 8)
From operations — Net income for the year	$ 8,952,000	$15,333,000
Add (deduct) non fund items: Depreciation and depletion (note 1(d))	1,680,000	1,841,000
Increase in deferred income taxes (note 1(f))	594,000	3,183,000
Minority interest in profit of subsidiary	76,000	142,000
Gain on sale of sundry investments and fixed assets	(528,000)	(733,000)
Gain on sale of undivided 10% interest in assets of Agnew Lake Mines Limited (note 4)	(2,871,000)	
Gain on transfer of interest in the Fernandez Joint Venture uranium reserves		(4,898,000)
Write-down in carrying value of property, plant and equipment (note 3)	1,500,000	
	9,403,000	14,868,000
Proceeds on sale of undivided 10% interest in assets of Agnew Lake Mines Limited (note 4)	4,800,000	
Proceeds on transfer of interest in the Fernandez Joint Venture uranium reserves		5,744,000
Proceeds on sale of sundry investments and fixed assets	702,000	1,122,000
Increase in long-term debt (note 5)	424,000	210,000
Issue of shares for cash (note 6)	8,000	4,000
	15,337,000	21,948,000
Application of funds: Additions to property, plant and equipment	3,168,000	4,221,000
Increase in investment in other mining companies	146,000	189,000
Deferred exploration expenditures	2,552,000	229,000
Decrease in minority interest in subsidiaries	151,000	
Expenditures on Agnew Lake property (net) (note 4)	2,622,000	1,300,000
Acquisition of additional 10% share interest in Agnew Lake Mines Limited		500,000
Dividends	4,768,000	6,675,000
	13,407,000	13,114,000
Increase in working capital	1,930,000	8,834,000
Working capital, beginning of year	32,063,000	23,229,000
Working capital, end of year	$33,993,000	$32,063,000

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1975

1. **Summary of significant accounting policies**

   (a) Basis of presentation of financial statements —
   The accompanying financial statements include, on a consolidated basis, the accounts of Kerr Addison Mines Limited and its wholly-owned subsidiaries, Normetal Mines Limited, Quemont Mines Limited, Keradamex, Inc., and Kerramerican, Inc., and its partially-owned subsidiaries, Agnew Lake Mines Limited (91.7% owned), Joutel Copper Mines Limited (63.3% owned), and Vangorda Mines Limited (69% owned). The Blue Hill and Icon Sullivan joint ventures are included in the consolidated accounts on the basis of the company's proportionate share of the assets, liabilities, revenues and expenses relating thereto.

   (b) Translation of foreign currencies —
   The accounts of U.S. subsidiaries have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the year-end; fixed assets, depreciation and depletion provisions on the basis of rates prevailing at dates of acquisition and income and expenses (other than depreciation and depletion) at average rates during the year. Exchange gains or losses resulting from such translation practices, which to date have not been material, are reflected in the consolidated statement of operations.

   (c) Concentrates, bullion and metals —
   Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net returns under sales contracts.

   (d) Property, plant and equipment —
   Additions to property, plant and equipment are recorded at cost and include previously deferred exploration and development expenditures on properties which have been brought into production. Depreciation and depletion thereon is provided at rates designed to write off the costs over their estimated useful lives. In the case of property, plant and equipment of the Blue Hill Joint Venture depreciation and depletion has been determined on units of production based on estimated reserves, except that, as explained in note 3, such assets have been further written down in 1975 to an amount it is estimated will be recoverable from future operations. Substantially all other fixed assets are being depreciated in equal annual amounts over their estimated useful lives.

   (e) Exploration expenditures —
   Exploration expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in the consolidated statement of operations. If the properties are brought into production, deferred exploration expenditures relating thereto are reclassified with property, plant and equipment and amortized as explained in note 1(d).

   (f) Income taxes —
   The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income (relating primarily to exploration and development expenditures claimed for tax purposes in excess of amounts written off in the accounts) result in deferred taxes.

2. **Investments in other mining companies**
   These investments represent shares of other mining companies which are being held on a relatively long-term basis. Such investments, which were carried at cost of $30,869,000 at December 31, 1975 and $30,723,000 at December 31, 1974 had quoted market values of approximately $57,518,000 at December 31, 1975 and $54,278,000 at December 31, 1974 (computed by pricing the individual holdings at the closing market quotations). Included in this category are 1,600,000 shares of Noranda Mines Limited, carried at a cost of $21,727,000 at December 31, 1975 and 1974, which had a quoted market value of $46,400,000 at December 31, 1975 and $45,400,000 at December 31, 1974. The market values of these investments do not necessarily represent the value of these holdings, which may be more or less than indicated by market quotations.

3. **Write-down in carrying value of property, plant and equipment**
   The company's most recent projections for the estimated remaining life of the Blue Hill Joint Venture indicate that approximately $1,500,000 of the undepreciated cost of property, plant and equipment may not be recoverable through operations. Accordingly, the carrying value of these assets at December 31, 1975 has been written down by a charge to operations of $900,000 (net of related taxes).

4. **Agnew Lake**

   (a) During 1975, Agnew Lake Mines Limited entered into an agreement to sell an undivided 10% interest in certain of its mining properties, plant, equipment, and deferred exploration, development and other expenditures. The resulting net gain of $2,420,000 has been recorded as income in 1975.

   The agreement also provides for the formation of a joint venture whereby all expenditures incurred subsequent to December 31, 1974 are to be shared by each of the parties in proportion to their respective interests. If a mine is brought into production on the property, each party will be entitled to its share of production in kind.

   (b) Prior to 1974, the Agnew Lake property was being held on a care and maintenance basis. During 1974 the company embarked on a two-year pilot program at an estimated cost of $3,000,000 to study the feasibility of recovering uranium from the property by solution extraction techniques. This program and feasibility study on development of the property were in progress at the year-end. Although a production decision has not yet been reached, management is confident that, with the current strength in world uranium markets, the Agnew Lake property will be able to operate profitably.

   Agnew Lake's costs, after reflecting the sale of the 10% interest noted above, consist of the following, all of which have been deferred:

Expenditures on property, plant and equipment	$ 6,324,000
Expenditures for exploration, development and other expenditures	11,079,000
Total costs	$17,403,000

5. **Long-term debt**
Long-term debt represents the minority interests' share of Agnew Lake Mines Limited 7% debentures due December 31, 1982 plus accrued interest of $1,074,000 in 1975 and $840,000 in 1974. Payment of interest accruing on these debentures has been deferred for six years from January 1, 1971.

6. **Share capital**
(a) Details of share capital are as follows:

	Number of shares
Authorized —	
Class A shares without par value	11,500,000
Class B shares without par value	999,000
Common shares without par value	1,000
	12,500,000

	1975	1974
Issued and outstanding —		
Class A	8,989,693	9,125,803
Class B	546,756	409,646
	9,536,449	9,535,449

The Class A and Class B shares are interchangeable one to another and participate equally with the common shares as to dividends and in all other respects. The only distinction is that for Class B shares, the directors may provide for the payment, in whole or in part, of a cash dividend out of tax-paid undistributed income on hand or out of 1971 capital surplus on hand (as defined in the Income Tax Act). At December 31, 1975, the company had capital surplus on hand (as defined) but had no 1971 undistributed income on hand (as defined).

(b) In 1975, 1,000 Class A shares were issued under the company's stock option plan for $8,000 cash. Employees' options were outstanding at December 31, 1975 covering a total of 33,000 Class A shares as follows:

Number of shares	Exercise price	Expiry date of option
11,000	$13.30	July 23, 1979
4,000	$ 8.14	July 21, 1981
4,000	$13.42	April 19, 1984
14,000	$12.62	April 18, 1985

7. **Federal government anti-inflation program**
(a) The federal government has passed the Anti-Inflation Act with effect from October 14, 1975 and has issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and dividends to shareholders. Dividends to the company's Class A and B shareholders during the year ending October 13, 1976 may not exceed $.70 per share.

(b) The federal government has proposed legislation imposing a 100% levy on export sales revenues in excess of those permissable under the guidelines for its anti-inflation program for the period from October 14, 1975 to December 31, 1978. Under the proposals, 75% of any such levy would be refundable some time in the ten years following the end of the control period, but under certain conditions, 90% of the levy could be refunded. On the basis of available information as to the government's intentions, in the opinion of the company, no provision is required in the 1975 accounts for revenues in excess of guideline amounts.

8. **Statement of changes in financial position**
During 1975, the company has adopted certain recommendations of the Canadian Institute of Chartered Accountants relating to the presentation of the statement of changes in financial position whereby gains on disposals of non-fund assets are excluded from the determination of funds from operations and the proceeds on disposition thereof are shown as a separate source of funds. The comparative figures for 1974 have accordingly been restated to conform with this basis of presentation.

9. **Statutory information**
(a) Total direct remuneration paid by the company and its subsidiaries to directors and senior officers during the year ended December 31, 1975 amounted to $305,000, ($284,700 in 1974).

(b) Included in accounts and interest receivable at December 31, 1975 are housing loans aggregating $77,000 to certain officers of the company.

10. **Subsequent event**
Subsequent to the year-end, the company entered into an agreement to purchase a 75% interest in Mogul of Ireland Limited, a company operating a base metal mine in the Republic of Ireland, at a price of approximately $9,000,000 cash.

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Net profit to Kerr Addison for the six months ended June 30, 1975 was \$5,089,000 or 53.4¢ compared to \$6,625,000 or 69.5¢ per share for the similar period in 1974. The reduction in earnings was a result of mine closures in Quebec at Normetal, Joutel, and the Icon Sullivan Joint Venture during the second quarter, as ore reserves were exhausted. Lower metal production and higher operating costs at the Virginiatown, Ontario gold mine and the Blue Hill Joint Venture zinc-copper mine in Maine, as well as a reduction in metal production at Canadian Electrolytic Zinc also contributed to the reduced earnings.

At a recent meeting of the Board of Directors a dividend of ten cents per share was declared payable September 18, 1975 to shareholders of record on August 28, 1975.

Work on the Grum zinc-lead-silver property, near Faro in the Yukon Territory, commenced on schedule early in April. The decline being driven at minus sixteen percent was advanced 1,263 feet by June 30th. Ground support by rock bolting has been required. Twenty-four surface diamond drill holes have been completed to date this year for a total of 27,000 feet of drilling. Most of these holes have been on or between sections drilled during 1974.

At the Agnew Lake uranium property, west of Sudbury in northern Ontario, development of the underground test stope was completed and underground leaching of broken rock will begin during the third quarter. Leaching of the surface stockpile commenced in June. Government approvals of the agreement between Agnew Lake Mines Limited and a major European utility for the sale of an undivided 10% interest in the property and plant are progressing.

A uranium exploration programme, including radiometric surveys and surface diamond drilling, was initiated in the Bancroft area of southeastern Ontario.

At the Virginiatown gold mine, rehabilitation of the drift on the 3850 foot level is expected to be completed by the end of July. This heading is to be extended 3,000 feet to explore the property under option from Sheldon Larder Mines Limited, where surface diamond drilling indicated the presence of gold values.

WILLIAM JAMES,
President.

Toronto, Canada,
July 23, 1975.

Printed in Canada

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KERR ADDISON
MINES LIMITED

Interim Report for the six months ended June 30, 1975

KERR ADDISON MINES LIMITED

CONSOLIDATED FINANCIAL SUMMARY
FOR THE SIX MONTHS ENDED JUNE 30, 1975
(Unaudited)

STATEMENT OF OPERATIONS	First Half 1975	First Half 1974
Revenue from metal production	$15,515,000	$18,378,000
Investment income	2,679,000	2,579,000
	18,194,000	20,957,000
Operating costs	9,669,000	10,040,000
Exploration	934,000	692,000
Depreciation and depletion	886,000	1,002,000
Income and mining taxes	1,770,000	3,036,000
	13,259,000	14,770,000
Profit before the following:	4,935,000	6,187,000
Profit on sale of investments and fixed assets (net of income taxes)	189,000	500,000
Profit before minority interest	5,124,000	6,687,000
Minority interest in profit of subsidiary company	35,000	62,000
Net Profit	$ 5,089,000	$ 6,625,000
Net Profit per share	53.4¢	69.5¢

STATEMENT OF CHANGES IN FINANCIAL POSITION

		1975	1974
Source:	Net profit from operations	$ 5,089,000	$ 6,625,000
	Depreciation and depletion	886,000	1,002,000
	Increase in deferred income taxes	193,000	120,000
	Change in minority interest	45,000	62,000
		6,213,000	7,809,000
	Investments and advances		149,000
	Increase in long-term debt	311,000	105,000
	Issue of shares for cash	4,000	4,000
		6,528,000	8,067,000
Application:	Dividends declared	1,907,000	1,907,000
	Increase in property, plant and equipment (net)	1,975,000	1,542,000
	Expenditures on Agnew Lake property	1,005,000	161,000
	Deferred exploration expenditures	(13,000)	(26,000)
	Grum Project Expenditures	1,166,000	
		6,040,000	3,584,000
Increase in Working Capital		$ 488,000	$ 4,483,000